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Duke Energy®

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Lara Simmons Nichols
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November 24, 2004

S. C. PUBLIC SERVICE COMMISSION
RECEIVED
NOV 29 2004
EXECUTIVE DIRECTOR'S OFFICE

The Honorable George N. Dorn, Jr.
Interim Executive Director
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, South Carolina 29211

Re: Docket No. 2004-335-E
Proposed Changes to Economic Development Rider (Rider EC) and Economic Redevelopment Rider (Rider ER)

Dear Mr. Dorn:

Duke Power, a division of Duke Energy Corporation, submits for filing an original and ten copies of its request for Public Service Commission of South Carolina ("Commission") approval to modify its Economic Development ("Rider EC") and Economic Redevelopment ("Rider ER") riders. Duke is proposing to eliminate the requirement under the qualification Section B which requires "that such capital investment be accompanied by a net increase in full time equivalent employees employed by the Customer in the Company's service area." Duke is also proposing a clarification to the language in Rider EC and Rider ER addressing the customer's obligations upon termination of an agreement under these riders prior to the initial term of the agreement. In addition, by separate cover Duke Power will be proposing to add early termination language to its Service Regulations and other rate schedules, if needed.

New Jobs Requirement

The manufacturing industry has changed tremendously in the past ten years. Manufacturing productivity gains have averaged twice the annual productivity gains of the rest of the private sector over the past two decades. Approximately 70% of Duke Power's new industrial load comes directly or indirectly from existing industrial customers. In today's competitive environment these existing industrial customers have to continuously compete against their own corporation's plants in other locations to keep their production facilities running. These customers are only able to stay in business if they are the most competitive site for the product line. This has led to changes in how their businesses must operate. These companies must modernize, consolidate and/or automate to reduce costs to meet the competition in the marketplace and this often means with fewer employees. They may expand production with the current employment levels or even have to cut jobs to keep their production from completely moving to another location outside of South Carolina. Even with the reduced employment levels, the manufacturing industry continues to provide tremendous benefits to South Carolina.

Benefits of the Manufacturing Industry:

- **Manufacturing economic multiplier = 2.43:**
  Manufacturing growth provides more additional economic activity and jobs than any other economic sector. Every $1.00 of final demand for manufactured goods generates an additional $0.67 in other manufactured products and $0.76 in products and services from non-manufacturing sectors. This increase in demand for other products means that there is an increase in demand for both manufacturing and non-manufacturing jobs. Every manufacturing job supports on average 2.5 – 3 jobs in other sectors, including 2 jobs in services. (Source: U.S. Dept. of Commerce- Bureau of Economic Analysis).

- **Manufacturing employment is more rewarding:**
  Manufacturing salaries, benefits, and opportunities for advanced education and training are all higher than in non-manufacturing sectors of the economy. Manufacturing industry salaries in South Carolina are approximately 35% higher than non-manufacturing jobs on average. These higher salaries support the demand for products and services in all sectors of the economy. (Source: South Carolina Department of Commerce).

- **Manufacturing pays the taxes:**
  Manufacturing has been an important contributor to tax receipts at all levels of government. During the 1990s, manufacturing corporations paid 30-34 percent of all corporate taxes collected by state and local governments, Social Security and payroll taxes, excise taxes, import and tariff duties, environmental taxes and license taxes. (Source: Joel Popkin and Co., "Securing America's Future: The Case for a Strong Manufacturing Base", June 2003).

- **Manufacturing is one of the main sources of investments in technology:**
  Manufacturers are responsible for 60% of the $193 billion that the U.S. private sector invests annually in R&D. (Source: Thomas J. Duesterberg and Ernest H. Preeg, eds., "U.S. Manufacturing: The Engine for Growth in a Global Economy" (Westport, Conn.: Praeger, 2003)).

Duke Power is proposing to eliminate the additional jobs requirement from Rider EC and Rider ER to better reflect the environment in the competitive manufacturing industry. The elimination of the additional jobs requirement will help to ensure that South Carolina continues to receive the substantial benefits that this sector provides.

Early Contract Termination

Duke Power is seeking to clarify its practices in connection with termination of electric service agreements prior to the end of the initial term. In Riders EC and ER, the Contract Period section currently states: "In the event of early termination of a contract under this Rider, the Customer will be required to pay the Company any costs due to such early terminations." During 2004, Duke has had several customers request to terminate their contract under the EC and ER Riders prior to fulfillment of the initial term of the agreement. In connection with these early contract terminations, some customers have sought clarification of the early termination language in the Riders.

Duke Power proposes to clarify the language in Rider EC and Rider ER to clearly state the method for determining the amount that customers will be required to pay when terminating the agreement before fulfillment of the initial term. The charge will be the lower of: (a) The net present value of the monthly minimum bills less any mitigation of damages; or (b) The sum of (1) the loss due to early retirement of facilities specifically installed by Duke Power to provide service under the agreement, plus (2) the difference between the net charges to the customer under the applicable rate schedule after application of any credits received under Rider EC or ER and Duke's marginal cost to serve the customer (provided that this amount is not less than zero or greater than the total credits received by the customer under Rider EC or ER). In this calculation Duke Power's marginal cost will be calculated as under Schedule HP, Hourly Pricing for Incremental Load.

This clarification represents Duke Power's long-standing practice in the event of early contract termination with respect to the consideration of minimum bills for the remainder of the initial term and the loss due to early retirement of facilities to serve the customer. With regard to the credits customers receive under Rider EC and Rider ER, the proposed approach is more consistent with customer expectations and the goals of economic development rates than requiring the repayment in full of the credits without further analysis. By requiring repayment of credits only to the extent needed to cover marginal cost, the proposed clarification is more advantageous to customers on these riders while ensuring that Duke has received sufficient revenue to cover its marginal cost to serve these customers.

By separate request, Duke Power will be requesting approval of a revision to its Service Regulations to include a provision addressing non-residential customers' early termination obligations. In addition, Duke Power has been reviewing its rate schedules to determine which tariffs need to be revised in conjunction with anticipated changes to the Service Regulations or to provide greater clarity regarding early termination obligations.

Attached are the EC and ER riders with the proposed changes highlighted. Duke Power respectfully requests Commission approval of the modified riders by January 1, 2005.

Sincerely,

Lara Simmons Nichols
William F. Austin, Austin, Lewis & Rogers, P.A.

Enclosures

cc: Randy Watts
John Flitter

RIDER EC (SC)
ECONOMIC DEVELOPMENT

AVAILABILITY (South Carolina Only)
Available, only at the Company's option, to nonresidential establishments receiving service from the Company under Schedule G, GA, I or OPT provided that the establishment is not classified as Retail Trade or Public Administration by the Standard Industrial Classification (SIC) Manual published by the United States Government.

This Rider is available for load associated with initial permanent service to new establishments, expansion of existing establishments, or new customers in existing establishments who make application to the Company for service under this Rider, and the Company approves such application after September I, 1994. The New Load applicable under this Rider must be a minimum of 1,000 KW at one delivery point. To qualify for service under this rider, the customer must meet the qualifications under A. or B. below:

A. The Customer must employ an additional workforce in the Company's service area of a minimum of seventy-five (75) full time equivalent (FTE) employees per 1,000 KW of New Load. Employment additions must occur following the Company's approval for service under this Rider.
B. The Customer's New Load must result in capital investment of four hundred thousand dollars ($400,000) per 1,000 KW of New Load~~, provided that such investment is accompanied by a net increase in full time equivalent employees employed by the Customer in the Company's service area.~~. The capital investment must occur following the Company's approval for service under this Rider.

This Rider is not available to a new customer which results from a change in ownership of an existing establishment. However, if a change in ownership occurs after the customer contracts for service under this Rider, the successor customer may be allowed to fulfill the balance of the contract under Rider EC and continue the schedule of credits outlined below. This Rider is also not available for renewal of service following interruptions such as equipment failure, temporary plant shutdown, strike, or economic conditions. This Rider is also not available for load shifted from one establishment or delivery on the Duke system to another on the Duke system.

DEFINITIONS
New Load: New Load is that which is added to the Company's system by a new establishment after September 1, 1994. For existing establishments, New Load is the net incremental load above that which existed prior to approval for service under this Rider.

Delivery Date: The Delivery Date is the first date service is supplied under the contract.

Operational Date: The Operational Date shall be the date the facility is fully operational as declared by the Customer, but shall be no more than eighteen (18) months after the Delivery Date.

Month: The term "month" as used in this Rider means the period intervening between readings for the purpose of monthly billings. Readings will be collected each month at intervals of approximately thirty (30) days.

GENERAL PROVISIONS
1. The Customer must make an application to the Company for service under this Rider and the Company must approve such application before the Customer may receive service hereunder. The application must include a description of the amount and nature of the new load and the basis on which the Customer requests qualification shown in A. or B. under Availability above. In the application, the Customer must affirm that availability of this Rider was a factor in the Customer's decision to locate the New Load on the Duke system. ~~The~~For customers making application under paragraph A. above, the application shall also specify the total number of full time equivalent employees (FTE) employed by the Customer in all establishments receiving electric service from the Company's system, at the time of application for this Rider, and on the Operational Date.

2. The Customer must agree to a minimum contract term of ten (10) years, with the credits being available for a maximum period of four years immediately following the Operational Date.

3. For customers contracting under this Rider due to expansion, the Company may install metering equipment necessary to measure the New Load to be billed under this Rider separate from the existing load billed under the applicable rate schedule. The Company reserves the right to make the determination of whether such installation will be separately metered or submetered. If in the Company's opinion the nature of the expansion is such that either separate metering or submetering is impractical or economically infeasible, the Company will determine, based on historical usage, what portion of the Customer's load, if any, qualifies as New Load eligible for this Rider.

4. To continue service under this Rider the customer must maintain a monthly average of 250 hours use of demand.

5. All terms and conditions of Schedules G, GA, I or OPT applicable to the individual Customer shall apply to the service supplied to the Customer except as modified by this Rider.

APPLICATION OF CREDIT:
Beginning with the Operational Date, a credit based on the percentages below will be applied to the total bill for the New Load contracted for under this Rider, calculated on the applicable rate schedule, including the Basic Facilities, Demand Charge, Energy Charge, or Minimum Bill excluding other applicable riders, and excluding Extra Facilities Charges.

Months 1 – 12	20%
Months 13 – 24	15%
Months 25 – 26	10%
Months 37 – 48	5%
After Month 48	0%

EXTRA FACILITIES CHARGE
A monthly "Extra Facilities Charge" equal to 1.7% of the installed cost of extra facilities necessary for service for additional metering required under Rider EC, but not less than $25, shall be billed to the Customer in addition to the bill under the appropriate rate schedule and this Rider, when applicable.

CONTRACT PERIOD
Each Customer shall enter into a contract to purchase electricity from the Company for a minimum original term of ten (10) years, and thereafter from year to year upon the condition that either party can terminate the contract at the end of the original term, or at any time thereafter, by giving at least sixty (60) days previous notice of such termination in writing. If the Customer requests a change in rate schedule from that which was approved in conjunction with Rider EC, credit under Rider EC will no longer be available. Such a change will be allowed upon thirty (30) days written notice to the Company. An individual establishment will not be allowed to receive credits for more than four(4) years under this Rider, unless the Company, at its option, agrees to accept a new application and contract for qualifying New Load, and such application receives special approval by the Company. If at any time during the term of contract under this Rider the Customer violates any of the terms and conditions of the Rider or the agreement, the Company may discontinue service under this Rider, and bill the Customer under the applicable schedule without further credits. In the event ~~of early~~the Customer requests an amendment to or termination of ~~a contract~~an agreement under this Rider before the expiration of the initial term of the agreement, the Customer will be required to pay the Company ~~any costs due to such early cancellation.~~as an early termination charge the lower of:

(a) The net present value of the monthly minimum bills, including, but not limited to, basic facilities, demand, and extra facilities charges, for the remaining term under the agreement less the expected net present value of the monthly minimum bills for the initial term of contract of any successor customer who has applied for service at the premises prior to the effective date of the contract amendment or termination, provided, however, this amount shall not be less than zero.

or

(b) The sum of:

1) The loss due to early retirement ("LDER") of all transmission and distribution facilities specifically installed by the Company in order to provide the Customer with electric service under the agreement to the extent that such facilities will not be utilized by the Company to provide service under the initial term of contract of any successor customer who has applied for service at the premises prior to the effective date of the contract amendment or termination. The LDER amount shall be calculated as the installed cost of such facilities less accumulated depreciation, less any salvage value, plus removal cost, provided, however, this amount shall not be less than zero;

and

2) The repayment of credits received under this Rider to the extent required based upon the marginal cost to serve the Customer. This repayment obligation shall be calculated as the difference between the net charges to the Customer under the applicable rate schedule after the application of any credits received under this Rider and the Company's marginal cost to serve the Customer; provided, however, that this amount shall not be less than zero and shall not be greater than the total credits received by the Customer under this Rider. The Company's marginal cost shall be calculated under the Company's Schedule HP-X (SC) Hourly Pricing for Incremental Load.

South Carolina ~~Original~~First (Proposed) Revised Leaf No. 84
Effective ~~August 26, 1994~~
PSCSC Docket No. ~~94-528-E~~
Order No. ~~94-876~~

RIDER ER (SC)
ECONOMIC REDEVELOPMENT

AVAILABILITY (South Carolina Only)
Available, only at the Company's option, to nonresidential establishments receiving service from the Company under Schedule G, GA, I or OPT, provided that the establishment is not classified as Retail Trade or Public Administration by the Standard Industrial Classification (SIC) Manual published by the United States Government.

This Rider is available for load associated with a new customer in an existing establishment served, or previously served, by the Company, provided the establishment has been unoccupied and/or has remained dormant for a minimum period of six months, as determined by the Company. In order to qualify for service under the Rider, the New Load must be a minimum of 500 KW at one delivery point at one voltage. In addition, the requested service necessary to serve the New Load must not result in additional investment in distribution facilities by the Company; however, minor alterations in the service supplied which can be accomplished feasibly and economically may be allowed. To qualify for service under this Rider, the Customer must meet the qualifications under A. or B. below

A. The Customer employ an additional workforce in the Company's service area of a minimum of thirty-five (35) full time equivalent (FTE) employees per 500 KW of New Load. Employment additions must occur following the Company's approval for service under this Rider.
B. The Customer's New Load must result in capital investment of two hundred thousand dollars ($200,000) per 500 KW of New Load~~, provided that such investment is accompanied by a net increase in full time equivalent employees employed by the Customer in the Company's service area. ~~. The capital investment must occur following the Company's approval for service under this Rider.

This Rider is not available for renewal of service following interruptions such as equipment failure, temporary plant shutdown, strike, or economic conditions. This Rider is also not available for load shifted from one establishment or delivery on the Duke system to another on the Duke system. However, if a change of ownership occurs after the customer contracts for service under this Rider, the successor customer may be allowed to fulfill the balance of the contract under Rider ER and continue the credits outlined below.

DEFINITIONS

New Load: New Load is that which is added to the Company's system as a result of the new customer taking service at an existing establishment and shall not be less than the Contract Demand.

Delivery Date: the Delivery Date is the first date service is supplied under the contract.

Operational Date: The Operational Date shall be the date the facility is fully operational as declared by the Customer, but shall be no more than twelve (12) months after the Delivery Date.

Month: The term "month" as used in this Rider means the period intervening between readings for the purpose of monthly billings. Readings will be collected each month at intervals of approximately thirty (30) days.

GENERAL PROVISIONS

1. The Customer must make an application to the Company for service under this Rider and the Company must approve such application before the Customer may receive service hereunder. The application must include a description of the amount of and nature of the new load and the basis on which the Customer requests qualification shown in A. or B. under Availability above. In the application, the Customer must affirm that availability of this Rider was a factor in the Customer's decision to locate the new load on the Duke system. ~~The~~For customers making application under paragraph A above, the application shall also specify the total number of full time equivalent employees (FTE) employed by the Customer in all establishments receiving electric service from the Company's system, at the time of application for this Rider, and on the Operational Date.

2. The Customer must agree to a minimum contract term of five (5) years, with the credits being available for a maximum period of one (1) year following the Operational Date.

3. To continue service under this Rider, the Customer must maintain a monthly average of 300 hours use of demand.

4. All terms and conditions of Schedules G, GA, I or OPT applicable to the individual customer shall apply to service supplied to the Customer except as modified by this Rider.

APPLICATION OF CREDIT:

Beginning with the Operational Date, a credit of 50% will be applied to the total bill in Months 1 through 12 for the New Load contracted for under this Rider, calculated on the applicable rate schedule, including the Basic Facilities, Demand Charge, Energy Charge, or Minimum Bill excluding other applicable riders, and excluding Extra Facilities Charges.

CONTRACT PERIOD

Each customer shall enter into a contract to purchase electricity from the Company for a minimum original term of five (5) years, and thereafter from year to year upon the condition that either party can terminate the contract at the end of the original term, or at any time thereafter, by giving at least sixty (60) days' previous notice of such termination in writing. If the Customer requests a change in rate schedule from that which was approved in conjunction with Rider ER, credit under Rider ER will no longer be available. Such a change will be allowed upon thirty (30) days' written notice to the Company. If at any time during the term of contract under this Rider, the Customer violates any of the terms and conditions of the Rider or the agreement, the Company may discontinue service under this Rider, and bill the customer under the applicable schedule without further credits. In the event ~~of early~~the Customer requests an amendment to or termination of ~~a contract~~an agreement under this Rider before the expiration of the initial term of the agreement, the Customer will be required to pay the Company ~~any costs due to such early cancellation.~~as an early termination charge the lower of:

(a) The net present value of the monthly minimum bills, including, but not limited to, basic facilities, demand, and extra facilities charges, for the remaining term under the agreement less the expected net present value of the monthly minimum bills for the initial term of contract of any successor customer who has applied for service at the premises prior to the effective date of the contract amendment or termination, provided, however, this amount shall not be less than zero.

or

(b) The sum of:

1) The loss due to early retirement ("LDER") of all transmission and distribution facilities specifically installed by the Company in order to provide the Customer with electric service under the agreement to the extent that such facilities will not be utilized by the Company to provide service any successor customer who has applied for service at the premises prior to the effective date of the contract amendment or termination. The LDER amount shall be calculated as the installed cost of such facilities less accumulated depreciation, less any salvage value, plus removal cost, provided, however, this amount shall not be less than zero;

and

2) The repayment of credits received under this Rider to the extent required based upon the marginal cost to serve the Customer. This repayment obligation shall be calculated as the difference between the net charges to the Customer under the applicable rate schedule after the application of any credits received under this Rider and the Company's marginal cost to serve the Customer; provided, however, that this amount shall not be less than zero and shall not be greater than the total credits received by the Customer under this Rider. The Company's marginal cost shall be calculated under the Company's Schedule HP-X (SC) Hourly Pricing for Incremental Load.

South Carolina ~~Original~~First (Proposed) Revised Leaf No. 87
Effective ~~August 8, 2002~~
PSCSC Docket No. ~~2002-249-E~~
Order No. ~~2002-577~~